

Late Backup



**Austin Energy
Financial Planning Update**

*City Council
August 19, 2010*




Austin Energy Financial Planning

City Manager identified several Financial Challenges facing Austin Energy in April:

- ▶ ***Funding*** for power generation and maintenance/improvements for utility infrastructure.
- ▶ The ***General Fund transfer policy*** needs to be evaluated in conjunction with the review of our electric rates.
- ▶ We need to recover ***increasing transmission costs*** related to ongoing costs of the Texas Transmission Construction Program.
- ▶ Changes in the electric industry will require us to evaluate and begin planning for adjustments to our ***business model*** to competitively position us for the future state of the industry.



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Today's Presentation

Update on Austin Energy's Financial Planning Initiatives launched in response to these challenges.



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AE Major Financial Initiatives

1. **Financial Assessment - Phase 1**
 - ▶ Financial and Programmatic Review of the Utility
 - ▶ Resource Generation Plan - Affordability Matrix

2. **Financial Assessment - Phase 2**
 - ▶ Rate Review
 - ▶ New Business Model



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Financial Assessment Phase 1 – Financial and Programmatic Review

- ✓ Independent evaluation of utility’s financial position
- ✓ Benchmarking of electric utility costs compared to other comparable utilities
- ✓ Review of programs to determine whether they support achievement of long-range goals in utility’s strategic plan and to help maximize efficiencies
- ✓ Assessment of General Fund transfer methodology



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Financial and Programmatic Review - Status

Tasks Performed	Status
Independent evaluation of utility’s financial position	<ul style="list-style-type: none">• Work underway. Completing financial analysis and preparing report.• Complete by September 30, 2010.
Benchmarking of electric utility costs compared to other comparable utilities	<ul style="list-style-type: none">• Work underway. Finalize collecting data and developing benchmarks by August 31. Analysis in progress.• Complete by mid-October, 2010.
Review of programs to determine whether they support achievement of long-range goals in utility’s strategic plan and to help maximize efficiencies	<ul style="list-style-type: none">• Work underway. Finalize collecting data and developing benchmarks by August 31. Analysis in progress.• Complete by mid-October, 2010.
Assessment of General Fund transfer methodology	<ul style="list-style-type: none">• Work underway. Provided some data. Additional information due by August 31.• Complete by mid-October, 2010.



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Financial Assessment Phase 1 – Generation Plan - Affordability Matrix

What is an affordability matrix?

- ▶ Used as tool for making resource investment decisions
 - ▶ Measures / Metrics
 - ▶ Dashboard
- ▶ Working Assumptions
 - ▶ Data-driven
 - ▶ Specific to customer classes
 - ▶ Benchmarking w/ Texas cities
 - ▶ Backed up by detailed methodology and sources
 - ▶ Updated annually
 - ▶ Must integrate with related projects



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Affordability Matrix - Development Process

Initial Customer engagement

- ▶ Key accounts
- ▶ Small business
- ▶ Social services organizations
- ▶ Environmental representatives
- ▶ Low-income advocates
- ▶ Residential representatives



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Affordability Matrix - Residential

Based on Energy Burden

- ▶ Energy Burden - percent of household income spent on electric service
 - ▶ Census data
 - ▶ Compare Austin area with other parts of state
 - ▶ Allows stratification of population by income and other characteristics (e.g., ownership/rental, house/apartment)
- ▶ Supplemental Information
 - ▶ Bill comparisons across communities
 - ▶ Couple with housing burden statistics
 - ▶ Provide breakdown of all utilities (electric, gas, water)
 - ▶ Energy efficiency information / housing characteristics



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Affordability Matrix - Commercial / Industrial

Based on competitiveness

- ▶ Commercial/industrial customers assess affordability in terms of competitiveness
- ▶ How do we assess competitiveness?
 - ▶ Characterize the general economic environment
 - ▶ Austin Energy customer electric bill data benchmarked with comparative Texas cities' electric bill data
 - ▶ Austin Energy specific data
 - ▶ Unique affordability metrics for commercial and industrial customers—particularly challenging to identify



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Affordability Matrix - Status

Tasks Performed	Status
Determine Residential Energy Burden	<ul style="list-style-type: none"> • Work underway and substantially complete. Completing analysis and preparing report. • Draft completed September.
Determine Commercial/Industrial "competitiveness"	<ul style="list-style-type: none"> • Work underway. Consultant completing analysis on Commercial/Industrial bills. • Draft completed September.
Customer Engagement	<ul style="list-style-type: none"> • Ongoing – • Provide draft metrics September.
Next Steps - EUC/Council review	<ul style="list-style-type: none"> • Begin in September/October.



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Financial Assessment Phase 2 - Rate Review

Multiple Objectives

- ▶ Assure long-term revenue sufficiency - need rate increase at beginning of FY 2013
- ▶ Rate rebalancing
- ▶ Execute strategy to become utility of the future
 - ▶ Development and public endorsement of "New Business Model" through collaborative Public Involvement process, consultant experience and AE staff expertise
- ▶ Engage public productively
 - ▶ Improve public confidence in utility decision making and transparency
- ▶ Key challenge - striking proper balance among objectives



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Assure long-term revenue sufficiency – Balance Rates

Develop a **Cost of Service (COS) model**,
tightly integrated with a Rate Design tool
and scenario analysis capability

- ▶ Update regularly
- ▶ Improve transparency



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Execute strategy to become utility of the future

- ▶ Two key components of rate review
establish foundation for **New Business
Model** opportunities
 - ▶ Unbundling:
 - ▶ Existing barrier to New Business Model—energy costs
intertwined with infrastructure (wires) costs
 - ▶ Differentiate **costs** of generation from **costs** of wires
 - ▶ Rate restructuring:
 - ▶ Unbundling allows differentiation of energy **pricing**
from wires **pricing**
 - ▶ Research alternative rate designs and pricing signals
 - ▶ Implement transition plan to unbundled pricing



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Engage Public Productively

Public Involvement Plan

- ▶ Start narrow and deep, gradually expand scope
- ▶ **Phase 1: Nov. 2010 - Oct. 2011**
 - ▶ Outreach among target, engaged constituencies
 - ▶ Low-income community advocates discussion group
 - ▶ Public Involvement Committee (PIC)
 - ▶ Modeled after Austin Water's successful process



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Engage Public Productively

Public Involvement Plan

- ▶ **Phase 2: Spring 2011-Spring 2012**
 - ▶ Outreach to Broader Set of Constituencies
 - ▶ Numerous, targeted discussions with neighborhood groups and key constituencies
- ▶ **Phase 3: Winter 2011-Spring 2012**
 - ▶ Broader based Town Halls
 - ▶ Expand scope to broadest audience



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Engage Public Productively

Other Communications Components

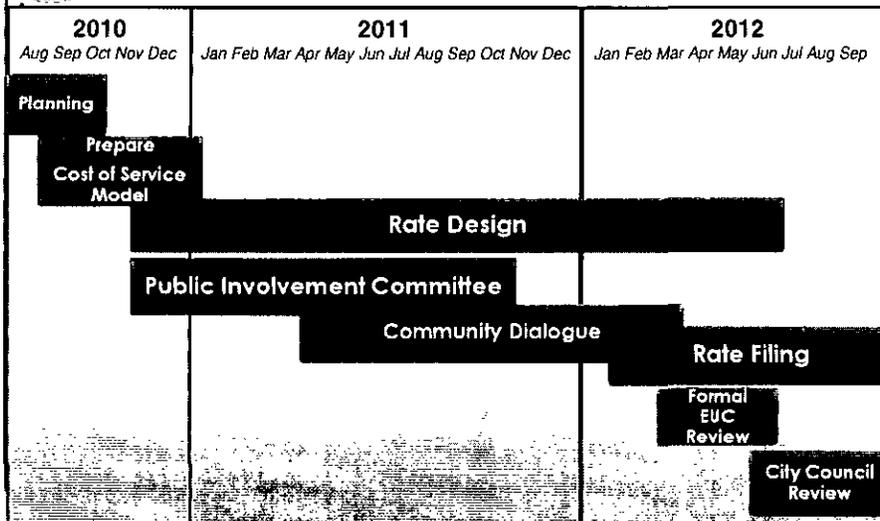
- ▶ Use web generously throughout public involvement
- ▶ Regular briefings with EUC and City Council
- ▶ Formal EUC hearings Spring-Summer 2012



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Rate Review Timeline



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Need for Consultant Engagement

- ▶ Outside – National Expertise
 - ▶ 17 years since last comprehensive rate review
 - ▶ Added depth needed
 - ▶ 26+ month process
 - ▶ Innovative rate designs
- ▶ New era of public engagement across the City
 - ▶ Lessons learned from generation plan public engagement
 - ▶ Public eager to participate



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Consultant Engagement 3 Separate Components

- ▶ Cost of Service and Rate Design
 - ▶ Develop unbundled Cost of Service Model
 - ▶ Research and develop rate design options
 - ▶ Present findings at public meetings, EUC, City Council
- ▶ Public Involvement
 - ▶ Manage Public Involvement Committee (PIC)
 - ▶ Organize constituency meetings and town halls
 - ▶ Help in media relations
- ▶ Financial Consultant
 - ▶ Assist in research and analysis—added depth
 - ▶ Assist with development of forecast and scenario tool



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Rate Review - Status

Tasks Performed	Status
<p>Consulting expertise to assist in rate planning and analysis</p> <ul style="list-style-type: none">• Prepare cost of service and rate design• Develop, implement and lead a public involvement communication plan• Act as a financial consultant and additional resource to assist Austin Energy	<ul style="list-style-type: none">• Request for Council Action to select consultants August 26, 2010.• Phase I – Project planning and development of unbundled Cost of Service and Rate Design Model - Complete January 2011.• Phase II – Modeling detailed rate design scenarios, public involvement input, community outreach and town hall meetings - Complete by December 2011.• Phase III – Include electric rate proposal in budget process, formal review by Electric Utility Commission with Council action in September 2012.• New rates effective October 1, 2012.



Questions

